

CINNABAR
PEAK MINES
LTD.

ANNUAL REPORT '77

CINNABAR PEAK MINES LTD.

OFFICERS

R. Olekshy, President
J. Paron, Secretary-Treasurer
H.A. Smith, Vice-President
E. Lipsett, Managing Director

REGISTER OFFICES

Alberta — 1002 Chancery Hall, Edmonton
British Columbia — Suite 2260 Pacific Centre South
700 West Georgia Street, Vancouver

REGISTRAR AND TRANSFER AGENT

The Guaranty Trust Company of Canada
Edmonton — Vancouver

AUDITORS

Willetts, Macmahon & Co.
Edmonton, Alberta

BANKERS

Bank of British Columbia
Edmonton, Alberta

SOLICITOR

Purvis, Johnston, Purvis, Allford and Finlay
Edmonton, Alberta

DIRECTORS

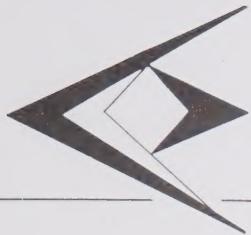
JULIUS BALSHINE
Business Executive
Vancouver, B.C.

EARL LIPSETT, Professional Geophysicist
Edmonton, Alberta

RUSSELL OLEKSHY, Senior Partner
Olekshy & St. Pierre
Edmonton, Alberta

JAMES PARON, General Manager
Industrial Machine Shop Ltd.
Edmonton, Alberta

HAROLD A. SMITH
Business Executive
Edmonton, Alberta



Cinnabar Peak Mines Ltd.

10549 - 110 STREET, EDMONTON, ALBERTA T5H 3C6 TELEPHONE (403) 423-4702

On behalf of the board of directors, I am pleased to submit the report on your Company's activities and financial statements for the year ending February, 1978.

As previously reported, your Company's coal holdings in the Chetwynd-Hudson Hope area of north east British Columbia have been sufficiently evaluated to indicate the establishment of mining operations of as much as 2-million tons per year of high grade metallurgical coal.

In addition to the metallurgical coals, extensive reserves of high quality thermal coals for power generation are readily available for open pit production and marketing.

With the world metallurgical coal market weakened during the latter 1970's, the development, marketing and sale strategies for these properties have been shifted to take advantage of the rapidly increasing demand for thermal coals in addition to the planned metallurgical coal development.

Current projections for world demand of all coals are for substantial increase during the 1980's. To meet this demand, it is anticipated that development of the Company's coal properties will accelerate to take full advantage of the world markets as the properties are readied for production.

Pursuant to the Statement of Intention to participate in the development of the Cinnabar Coal Properties between Harrison Western Corporation of Denver, a subsidiary of Patrick Harrison and Company Ltd. of Toronto and the Company's present operator Douglas Ragan of Dawson Creek, B.C. the negotiation period between the parties has been extended further than originally anticipated to provide the additional time required to include the negotiation of coal sales contracts in the overall development program.

During this period, intensive in-depth negotiations are continuing for the sale of thermal and metallurgical coals to be produced from the Company's properties. While substantial progress has been made, general world mining and economic conditions have made these negotiations more difficult to complete. Recent federal government statements, however, have indicated that coal markets are improving significantly. It has been announced by the Federal Government that new Canadian coal sales to Korea should be confirmed by early 1979.

While delays in the finalization of negotiations have regrettably occurred, the strategies of development have added these new dimensions of coal sales contracts to the overall planning. We are most confident of your Company's future through the world wide interest expressed for the development of the property.

In the next company progress report, the date and location of the Company's annual meeting will be announced.

To our shareholders we express our sincere appreciation for their continued confidence and support.

On Behalf of the Board of Directors

Russell Olekshy, President

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WILLETT MACMAHON & COMPANY

CHARTERED ACCOUNTANTS

1978

(1978 to 1977 financial year)

1978
Dividend Paid
100,000
100,000
100,000
100,000

1978
100,000

AUDITORS' REPORT

To the Shareholders of
Cinnabar Peak Mines Ltd.

We have examined the balance sheet of Cinnabar Peak Mines Ltd. as at February 28, 1978 and the statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at February 28, 1978 and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

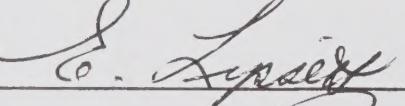
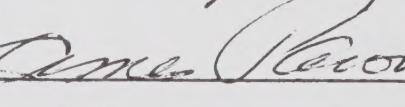
EDMONTON, Alberta
August 21, 1978.

Willetts MacMahon & Company.
Chartered Accountants.

CINNABAR PEAK MINES LTD.

BALANCE SHEET

February 28, 1978
(with comparative figures for 1977)

	<u>ASSETS</u>	<u>1978</u>	<u>1977</u>
Current Assets			
Cash	8,877	40,656	
Accounts receivable	<u>67,285</u>	<u>61,934</u>	
	Total current assets	76,162	102,590
 Performance Bonds			
	14,721	13,593	
 Mineral Properties - Note 2		73,670	73,670
 Deferred Exploration Costs		356,852	356,852
 Deferred Administration Costs - Schedule		181,589	128,263
 Organization and Share Issue and Listing Costs		26,530	26,530
 APPROVED ON BEHALF OF THE BOARD:			
	_____ S. Lysdej	Director	
	_____ James Pecon	Director	
	\$ 729,524	\$ 701,498	

The accompanying notes are an integral part of these financial statements.

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		<u>1978</u>	<u>1977</u>
Current Liabilities			
Accounts payable		6,682	28,656
Advance Royalty - Note 3		100,000	50,000
Shareholders' Equity			
Capital stock			
Authorized			
3,000,000 shares without nominal or par value			
Issued			
2,168,542 shares issued for cash and services		642,434	642,434
750,000 shares issued for mineral property		75,000	75,000
2,918,542		717,434	717,434
Deficit		(94,592)	(94,592)
		62,842	62,842
		<u>\$ 729,524</u>	<u>\$ 701,498</u>

The preceding were all issued under Voltage Mining's Incentive Stock Option Plan.

CINNABAR PEAK MINES LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended February 28, 1978
 (with comparative figures for 1977)

	<u>1978</u>	<u>1977</u>
Source of Funds		
Issue of shares	-	67,250
Advance royalty	<u>50,000</u>	<u>50,000</u>
	Total funds provided	50,000
	<u>50,000</u>	<u>117,250</u>
Application of Funds		
Increase in performance bonds	1,128	10,323
Organization and share issue costs	-	300
Administration costs	<u>53,326</u>	<u>44,091</u>
	Total funds applied	54,454
	<u>54,454</u>	<u>54,714</u>
Increase (decrease) in working capital	(4,454)	62,536
Working capital, beginning of the year	<u>73,934</u>	<u>11,398</u>
Working capital, end of the year	<u>\$ 69,480</u>	<u>\$ 73,934</u>
Working capital defined		
Current assets	76,162	102,590
Current liabilities	<u>6,682</u>	<u>28,656</u>
	\$ 69,480	\$ 73,934
	<u>=====</u>	<u>=====</u>

The accompanying notes are an integral part of these financial statements.

CINNABAR PEAK MINES LTD.

NOTES TO FINANCIAL STATEMENTS

February 28, 1978

Note 1 - Accounting Policies

Exploration, administration and share issue costs

All costs relating to exploration, administration and share issue costs are capitalized until such time as the company or its operator commences production.

When mineral properties are surrendered, the accumulated costs on the surrendered properties are written off to deficit.

Advance royalties

Funds received or receivable from the operator as advances on future royalties will be deferred until such time as actual production commences.

Note 2 - Mineral Properties

Mineral properties consist of the following:

(a) Coal mining leases

1,600 acres of coal mining leases recorded at the amount paid under the option agreement to acquire the leases.

The option payments required under the agreement are \$7,000 annually.

The leases may be acquired by exercise of the option agreement by February 28, 1979, with an acquisition price of \$150,000 reduced by a portion of the option payments already paid under the agreement.

(b) Coal mining licenses

38 coal licenses issued by laws of the Province of British Columbia recorded at the cost of staking and recording such licenses.

The properties are all located near Portage Mountain, in the Province of British Columbia.

CINNABAR PEAK MINES LTD.

NOTES TO FINANCIAL STATEMENTS

February 28, 1978

Note 3 - Operator's Working Option

By agreement, the company has appointed an operator to carry out certain exploratory, investigative and production work on the company's coal properties.

The operator has agreed to:

- (a) At his cost, to carry out exploratory work and prepare the properties for commercial production.
- (b) To make all payments, royalties, taxes or other levies required to keep the properties in good standing for the company.
- (c) To make all payments required to acquire the coal leases as set out in Note 2 above.
- (d) To pay to the company royalties on all coal produced from the company's properties and specifically pay advance royalties in the amount of \$50,000 in each year that the agreement is in effect. These advance royalties can be applied against future royalties payable if such amounts exceed \$50,000 in any given year.

In consideration of the above covenants by the operator, the company has agreed to grant the operator the exclusive right to dig, excavate, remove and sell coal from the company's coal properties.

Note 4 - Remuneration to Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$26,000.

CINNABAR PEAK MINES LTD.

SCHEDULE OF ADMINISTRATION COSTS

For the year ended February 28, 1977 and 1978

	<u>Balance</u> <u>February</u> <u>28, 1976</u>	<u>Expended</u> <u>1977</u>	<u>Balance</u> <u>February</u> <u>28, 1977</u>	<u>Expended</u> <u>1978</u>	<u>Balance</u> <u>February</u> <u>28, 1978</u>
Management fees	31,909	6,000	37,909	15,000	52,909
Directors' fees	9,000	5,000	14,000	5,000	19,000
Travel	6,913	-	6,913	876	7,789
Legal and audit	20,530	19,303	39,833	24,231	64,064
Office and printing	11,869	10,666	22,535	5,540	28,075
Telephone	2,659	277	2,936	1,822	4,758
Advertising	1,539	97	1,636	1,810	3,446
Interest	18,341	3,290	21,631	42	21,673
Sundry	<u>579</u>	<u>83</u>	<u>662</u>	<u>622</u>	<u>1,284</u>
	103,339	44,716	148,055	54,943	202,998
Interest income	<u>17,630</u>	<u>625</u>	<u>18,255</u>	<u>1,617</u>	<u>19,872</u>
	85,709	44,091	129,800	53,326	183,126
Deduct: portion applicable to properties abandoned	<u>1,537</u>	<u>-</u>	<u>1,537</u>	<u>-</u>	<u>1,537</u>
	\$ 84,172	\$ 44,091	\$ 128,263	\$ 53,326	\$ 181,589
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

The accompanying notes are an integral part of these financial statements.

